Development Practicum

Brookland Student Center

Washington, D.C.

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Executive Summary

Despite a nationwide economic slowdown and fears of a recession, U.S. college and university enrollment is expected to continue rapid growth throughout the country in the coming years. According to the National Center for Education Statistics, college enrollment is expected to increase by 19% from 2000 to 2012. This increase in enrollment has lead to a shortage of housing for students in and around college campuses. Despite increases in the construction of on-campus residential facilities, universities have not been able to keep up with demand. Nationally this has created a growing niche market for private investors and developers to build student housing in cities and towns with large college populations. Due to the strength of the overall residential market in recent years, this trend has not caught on in the Washington, DC Metro area despite the large student population. However, the recent weakening of the DC Metro area residential market makes student housing an intriguing investment opportunity.

The Brookland neighborhood in northeast Washington, DC presents a unique opportunity to tap this growing market in the DC Metro area as it is home to two universities - Catholic University of American (CUA) and Trinity Washington University (Trinity) - and is at the crossroads of a transportation system (both road and rail) that provides convenient access to several other nearby institutions such as Howard University, the University of Maryland College Park, Gallaudet University, and Georgetown University.

Brookland has not seen the rapid development of other DC neighborhoods in recent years due to a lack of developable sites. However, in April 2008, the DC Office of Planning released a Small Area Plan for the neighborhood surrounding the Brookland/Catholic University of America Metrorail Station located in the center of Brookland and directly adjacent to the main campus of the Catholic University of America, a 5,500 student private university. The plan, completed over 18 months, set forth guidelines for future development in the vicinity of the Metro Station in a manner that is consistent with the character of the surrounding neighborhood. Currently, the area around the station consists of a variety of low-density, underutilized, commercial and light industrial properties. The Small Area Plan recommends that most of the industrial properties adjacent to the Metro Station be re-zoned and developed as moderate density, transit oriented, pedestrian friendly, mixed-use residential and neighborhood serving retail uses. The recommendations stem from the Office of Planning’s goal to stimulate mixed-use development around Metro stations throughout the District, and to help better connect Catholic University with the surrounding Brookland neighborhood.

The northwest corner of Michigan Avenue and 10th Streets NE presents an opportunity to assemble four properties that are currently underutilized and can be developed into a mixed-use project that includes student housing and retail.

The proposed project, Brookland Student Center, will be a 215,000 square foot project that includes 476 beds of student housing in 199,000 square feet and 16,000 square feet of neighborhood serving retail. The student housing component will be developed as “shared apartments”, a popular student housing product type being used throughout the nation. The shared apartment model will feature two-bedroom and four-bedroom units. Each bedroom will be fully furnished, have a private bathroom, and will be under an individual lease to a single student. That student will share the unit’s common living areas and kitchen with unit’s other tenants. This model allows for units to be rented on a “per bed” basis comparable to on campus housing options. It also allows for small unit sizes with two-bedroom units averaging 800 square feet and four-bedroom units averaging 1,200 square feet. Consequently, average units rents on a “per square” foot basis will exceed the rents of traditional apartments in the same submarket.

The proposed project will require approval of a Planned Unit Development (PUD) by the DC Zoning Commission in order to meet the density necessary to achieve the required returns of the project. However, the proposed density and building type are in accordance with the recommendations of the Small Area Plan. All contracts to purchase the necessary properties will be contingent on this approval. The overall project schedule is 51 months from inception to exit due to the lengthy process of assemblage and entitlements.

The proposed project will seek to achieve “per bed” rents that are comparable to campus housing options at CUA and Trinity and will offer finishes and amenities that far exceed on campus housing options. Projected rents are $850-$950 per month per bed, which results in a stabilized net operating income of $4.7M. The total project development budget is expected to be $53Million, resulting in a yield on cost at stabilization of 9.1%. Interim construction debt for 60% of the development budget will be utilized and thus requiring an equity investment of $21Million. Upon stabilization the project will be sold or refinanced to take advantage of less expensive capital that is available for stabilized projects. Upon exit in month 51, the project results in a 21% unleveraged internal rate of return (IRR) and a 26.8% leveraged IRR to the developer and equity investor.

The projected returns for the Brookland Student Center project are commensurate with the risks in a development project, especially the risks of a niche product that is untested in the DC Metro Area. As the project will require significant time for assemblage of the necessary parcels and the entitlement process, there will be ample time to re-evaluate the projected returns and economics of the project in the future while placing a minimal amount of capital at risk. It is recommended that the project move forward with the assemblage and entitlements process in preparation for the design and construction of the project should assemblage and entitlements be successful and market conditions at that time warrant returns that are commensurate with expected risk.

Project Description

The proposed project, named “Brookland Student Center” will be a 215,000 square foot, mixed-use project that will incorporate student housing and neighborhood serving retail. The student housing program will be developed as “shared apartments”, in which each apartment unit will have two or four bedrooms, each with a private bath and shared living spaces such as living room and kitchen. Each bedroom will be rented under individual leases but common spaces are shared amongst all of the tenants in a unit. Each bedroom comes fully furnished with a bed and mattress, dresser, and desk making the individual bedrooms comparable to traditional dorms and on-campus apartments. The project will be designed to be an extremely attractive alternative to on-campus living by featuring amenities and conveniences that are not typically found in traditional student housing. In unit amenities include air conditioning, internet access with connection to Catholic University and Trinity Washington University campus networks, in unit washer-dryer, full modern kitchens with stainless appliances, deluxe furnishings, and high-end modern finishes. Building amenities will include a roof-top deck and party area, large lobby with lounge area, a community party room with coffee service, flat screen televisions and billiards table, a state-of-the-art fitness center, concierge service, electronic access, study lounge with wireless internet and business center, and an outdoor courtyard with grills. The project will also provide student oriented organized activities such as community happy hours and business networking events that provide a sense of community.

The shared apartment model of student housing has gained popularity around the country in recent years and offers a number of advantages over traditional apartments. Given that students can often be considered to be a credit risk, individualized leases allow for students to pay rent individually and not be reliant on un-related roommates for rent payments. This reduces credit and collection losses and will also allow the project to accept direct rent payments from student lenders and university financial aid offices. More importantly, the shared apartment model utilizes much smaller unit types when compared to traditional apartments.

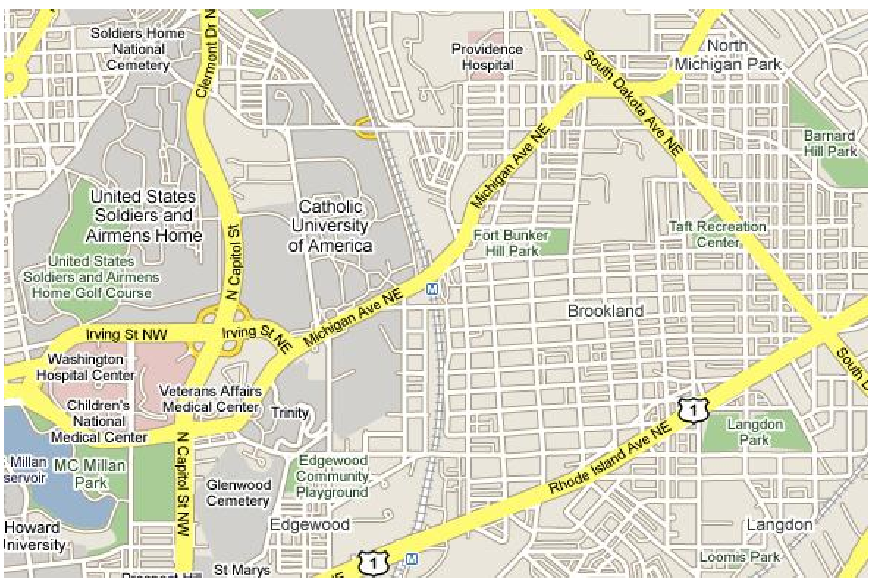
Four-bedroom units can be accommodated in a 1,200 square foot floorplan and two-bedroom units can be accommodated in 800 square feet. As the units are rented on a per-bedroom basis at rents comparable to on-campus housing, it is possible to achieve rents that in many sub-markets are comparable and often far exceed those of traditional apartments on a per square foot basis.. Underground parking will be available at an additional cost. In addition to offering advantages over traditional student housing options, the project will offer significant advantages over traditional apartments as it is a student only community with student friendly amenities and lifestyle.

The proposed project will also include 16,500 square feet of retail space at the ground level. The retail be targeted to student and neighborhood oriented retailers such as bookstores, grocery and convenience stores, coffee shops, and restaurants. The presence of retail will act as an additional amenity for the student housing component.

Site Analysis

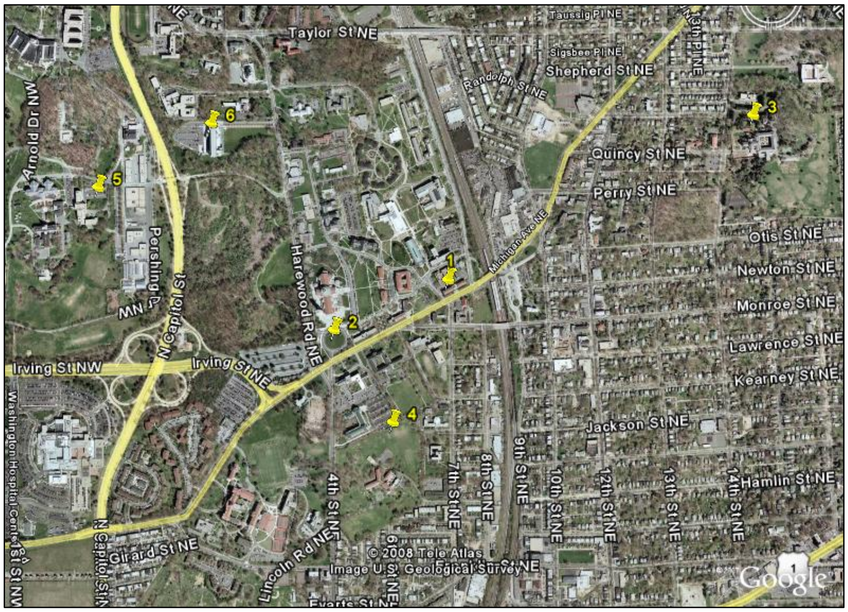
Neighborhood

The proposed project site is located in the Brookland Neighborhood in the northeast quadrant of Washington, DC. Brookland does not have any legally defined boundaries but it is generally considered to be bounded by Rhode Island Avenue to the south, Taylor Street to the north, North Capitol Street to the west and South Dakota Avenue to the east. The site is located near the geographical center of Brookland and is near what is generally referred to as the "downtown" of Brookland, at the intersection of 12th Street NE and Monroe Street NE, just southeast of the site.



Brookland Neighborhood **Map**

Brookland is generally laid out in a grid of streets and blocks. Several major roadways traverse Brookland, most significantly of which is Michigan Avenue, which rises into a bridge, crossing the tracks, bisects Brookland into northern and southern areas. Similarly, the WMATA/CSX railroad tracks bisect Brookland into eastern and western areas. While the roadways and transit serve as important means of transportation and access to and from Brookland, in certain places they act as a barriers to neighborhood connectivity. Brookland is home to several large DC institutions including, the Mount Saint Sepulchre Franciscan Monastery; the Catholic University of America; Trinity Washington University; the Armed Forces Retirement Home (also known as the Old Soldiers Home); the Pope John Paul II Cultural Center; and the Basilica of the National Shrine of the Immaculate Conception. These institutions are set amid low and moderate density housing (when compared to the rest of the District). Most homes are large detached single family homes with some small (less than 20 unit) multifamily buildings. Commercial development in the area is centered on a low density neighborhood retail strip along 12th Streets and Monroe Streets. The majority of the retail buildings are single story commercial buildings, with minimal off-street parking that provide convenience retail such as small cafés and shops for the residential neighborhood. There is no destination retail in Brookland and no commercial office space, save for a handful of standalone retail/office buildings centered on 12 Street which acts as the neighborhood's main street. Brookland is a classic urban village with historic homes, a



Map of Area Institutions:

1 – Catholic University of America
2 - Basilica of the National Shrine of the Immaculate Conception
3 - Mount Saint Sepulchre Franciscan Monastery
4 - Trinity Washington University
5 - Armed Forces Retirement Home
6 - Pope John Paul II Cultural Center

pedestrian friendly layout and many of the advantages of a small town. Photos of Brookland are included as Attachment “A”.

Brookland, while not currently designated as a historic district, has previously been nominated for inclusion in the Districts historic neighborhoods list, which would require all potential development to be reviewed by the Historic Preservation Review Board (HPRB). Regardless, any development will require a design and architectural details that are compatible with the character of the neighborhood.

Proposed Site:

The proposed site is comprised of four individual properties that will need to be assembled and re-subdivided for any development to take place.

Proposed Site

The four properties are:

- **“A” 934** Michigan Avenue NE – Currently occupied by an auto repair shop. The site contains 15,670 square feet of land.
- **“B”** 3700 10th Street NE – Currently occupied by a car rental agency. The site contains 10,688 square feet of land.
- **“C”** 3722 10th Street NE – Currently a vacant lot used for truck parking. The site contains 13,633 square feet of land.

- **"D"** 3726 10th Street NE – Currently occupied by an electrical supply shop. The site contains 16,458 square feet of land.

In total the proposed site is 56,449 square feet of land and is improved by a variety of small buildings with a total of about 25,000 square feet. The site is bounded by Michigan Avenue on the south; 10th Street on the east; a small retail strip center and a private parking lot on the north; and by the metro and rail right of way on the west. The area is generally flat; therefore topographical issues are not relevant.

Vehicular access to the site is primarily via Michigan Avenue, which is a major arterial street that provides access to downtown DC and nearby neighborhoods such as Columbia Heights and Adams Morgan to the south and west and suburban areas of College Park, Hyattsville, and Takoma Park to the north and east. Michigan Avenue is a major carrier of both commuting and local traffic through Brookland to suburban areas of Maryland to the north and east. A stop light is present at the intersection of Michigan Avenue and 10th Street, which is primarily a local street. The primary site frontage is on 10th Street, as Michigan Avenue rises to an overpass over the metro and rail tracks to the south of the site. However, the site has excellent visibility to traffic heading westbound on Michigan Avenue and some visibility to traffic eastbound on Michigan.

Birdseye View of Site

The site does not have good access to freeways, the nearest of which is Interstate 495, which is approximately six miles north of the site and US295 (BW Parkway) which is four miles east and thus is not ideal for the current light industrial and commercial uses. The site has excellent access to multi-modal transit. The Brookland station of Washington, DC's Metrorail system is directly south of the site across Michigan Avenue. There is pedestrian access to the Metro Station below the Michigan Avenue overpass. The Brookland Station is two stops from the edge of the central business district (NY Avenue Station); six stops from Metro Center; and three stops from Union Station (which provides access to Amtrak; Regional and National Bus services, and both Maryland (MARC) and Virginia (VRE) commuter rail lines).

The site is also adjacent to the convergence of several Metro Bus lines that provide access to nearly all area of the District and some suburban areas. These bus lines include the H8/H9 along 10th Street; R4 and H1/2/3/4 lines along Michigan Ave and the G8 line along Monroe Street, which is two blocks south of the site.

All area streets, even the arterial Michigan Avenue, have pedestrian friendly designs with sidewalks and street parking to provide a buffer to traffic. The Michigan Avenue overpass provides access across the metro tracks to the main campus of Catholic University. The Metro Station is easily walkable from 10th Street to Monroe or underneath the Michigan Avenue Overpass. The site is also directly across the street from Turkey Thicket Recreation Center: a state-of-the-art public facility operated by the DC Department of Parks and Recreation and was built in 2006. Turkey Thicket features an Olympic-sized indoor pool, indoor basketball courts, fitness center and activity rooms, and exterior athletic fields.

The site was selected for the student housing project due to its direct proximity to Catholic University and Trinity Washington University and adjacent Metro Station, which allows for easy access to other nearby college campuses. The excellent neighborhood amenities and opportunity for growth and future projects were also an important factor in site selection.

Zoning/Entitlements

Existing Zoning

The entire site and the adjacent retail center to the north of the site are currently zoned C2A. The adjacent Comcast property to the rear is zoned CM1. According to the DC Office of Zoning website, C2A zoning:

> *"Permits matter-of-right low density development, including office, retail, and all kinds of residential uses to a maximum lot occupancy of 60% for residential use, a maximum FAR of 2.5 for residential use and 1.5 FAR for other permitted uses, and a maximum height of fifty (50) feet"*

The Zoning Regulations that govern all non-federal development in the District of Columbia are part of Title 11 of the DC Municipal Regulations. Section 720 of the DC Zoning Regulations defines C2 zoning districts as "Community Business Center" districts that are further sub-defined as C2A, C2B, and C2C. Section 720 provides further definition of the C2A district:

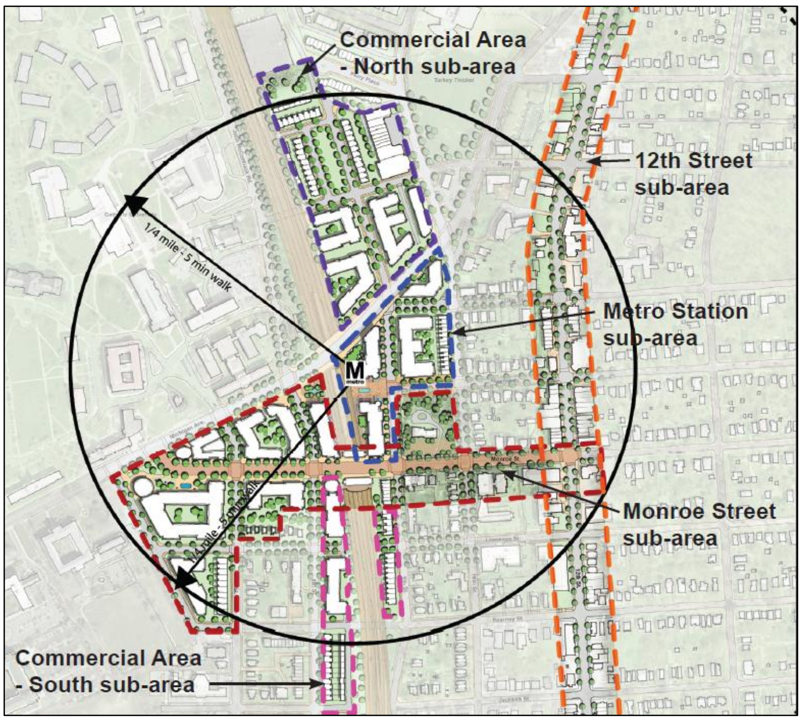
> 720.2 - The C-2-A District is designed to provide facilities for shopping and business needs, housing, and mixed uses for large segments of the District of Columbia outside of the central core.
>
> 720.3 - The C-2-A Districts shall be located in low and medium density residential areas with access to main highways or rapid transit stops, and shall include office, employment centers, shopping centers, and medium-bulk mixed use centers.
>
> 720.4 - The C-2-A District shall permit development to medium proportions.
>
> 720.5 - The C-2-A District shall accommodate a major portion of existing commercial strip developments.

Under the C2A zoning, the site would accommodate a maximum approximately 141,000 square feet of development, assuming the project is either residential or mixed-use residential and retail/commercial, based on an allowable 2.5 FAR. The maximum amount of commercial (office and/or retail space) is approximately 84,000 square feet based on a maximum of 1.5FAR for commercial space. The maximum building height is 50 feet. There is no specified limit on the number of stories but the 50 foot height limit will provide physical constraints to the number of stories. The C2A zone limits the lot coverage to 60% of lot for residential use; however there is no limit to lot coverage for commercial uses. Therefore if a mixed-use project were developed with ground floor retail use, the ground level could cover 100% of the lot, but upper levels would only be allowed a footprint of approximately 33,900 square feet. However, both the commercial and residential components would have to comply with the 15 foot rear yard setback requirement. There are no side yard or front yard setback requirements in C2A.

Off-street parking is required at a rate of one space for every two units for any residential component of the project. The parking requirement for retail space is one space for every 300 square feet of gross retail space but an exemption is given for the first 3,000 square feet of space. The Zoning Regulations allow for a reduction of non-residential parking for sites that are adjacent to Metro Stations. In this case, the site is within 800 feet of Brookland Metro Station, therefore a 25% reduction in the retail parking would be allowed. The Zoning regulations also require an off-street loading dock for development projects with more than 5,000 square feet of retail space and/or more than 50 residential units.

Small Area Plan

In April 2008 the DC Office of Planning ("OP") issued a report entitled the "Brookland/CUA Metro Station Small Area Plan". This Small Area Plan ("SAP") was the culmination of a two year effort by the OP and various neighborhood stakeholders and was "developed for the purpose of guiding the growth, development and revitalization of underutilized areas within a quarter mile or ten-minute walk of the Brookland/CUA Metro Station, as called for in the *2006 DC Comprehensive Plan*." The SAP made a number of recommendations for the future of the Brookland neighborhood in an effort to guide Land Use and Neighborhood Character; Economic Development & Neighborhood Amenities; Transportation, Walkability and Connectivity; Green Space, Open Space and Environment Guiding Principles.



Small Area Plan overview

Source: DC Office of Planning

The SAP provided further guidelines in several sub-areas within the neighborhood. This site is located in the "Commercial Area North of Metro Station" Sub-Area. The recommendations for the sub-area include:

- Extension of 9th Street north to create a new fabric of streets and blocks and the creation of a new alley behind the site. The extended 9th Street would be located behind the site, bifurcating the Comcast property with a new alley providing two developable sites.

Small Area Plan - Station North Sub Area
Source: DC Office of Planning

- Develop new residential and small office uses, created along a fabric of streets and blocks, extending and integrating with the existing neighborhood character.
- Provide adequate parking but at low transit-oriented development parking ratios.
- Development between Michigan Avenue and an extended Perry Street may be allowed up to 6 stories or a maximum 70 feet through a Planned Unit Development, a discretionary approval by the District's Zoning Commission. Building heights should taper down to transition to adjacent lower scale residential structures.

The SAP recommendations will allow for a more advantageous development program on the site via PUD approval from the DC Zoning Commission. While the by-right zoning will allow for nearly 150,000 square feet of development and thus a viable residential apartment project, additional density and, relief from other requirements will vastly improve the likelihood of a successful project.

Planned Unit Development

A PUD will allow for relief from all zoning restriction so long as they are within the guidelines of the of the Comprehensive Plan, Small Area Plan, have been vetted with the local ANC and community stakeholders, provide significant community benefits and be approved by the Zoning Commission. The project will seek the following relief from the Zoning Commission:

- Increase in buildable density from 2.5 FAR overall to 3.81
- Increase in the lot coverage ratio for residential from 60% to 64%
- Relief from the 15 foot rear yard setback. In exchange, the developer will contribute 20 feet of the rear of the site to the future development of the public alley and 9th street right-of-way extension. In the interim, the 20 foot exaction will be used as vehicular access to the site.
- Increase in building height from 50 feet to 70 feet, allowing for six stories of development including one level of retail, and five levels of residential.

A PUD will require a detailed submission to the Zoning Commission. The PUD process can be done as a two-staged review or submitted as a consolidated (stage one and two) application. Stage 1 review typically provides a general review of the use, character and scale of the project. Stage 2 review is a more detailed review of the project's design and compliance with Stage 1 review, and the SAP guidelines. Given this project is in line with the recommendations of the SAP and is not seeking a substantial change in the use of the site, a consolidated application (Stage 1 and 2 together) is appropriate.

The process and schedule for submitting a PUD application are as follows:

1. Prepare schematic drawings; elevations; material samples; detailed site plan; parking and traffic studies; landscaping and grading plan.
2. Work with a land-use attorney to prepare the PUD application and documentation.
3. Submit a Notice of Intent to File PUD Application to the DC Zoning Commission; Office of Planning; Advisory Neighborhood Commission; Brookland Main Streets; the Ward 5 Council member; and various other community stakeholders such as Catholic University, Trinity Washington University neighboring businesses and property owners, and local churches.
4. Submit the PUD Application to the Zoning Commission and pay all filing fees.
5. Submit detailed project information, drawings, design narrative, studies, and description of conformance with the Small Area Plan to the Ward 5 Planner at the Office of Planning for the OP report.

6. Concurrent with Step 5, setup meetings with the ANC and local stakeholders to obtain formal project support in the form of letters and a motion to support the PUD from the ANC.
7. Schedule the PUD Public Hearing at the Zoning Commission.
8. Post a Notice of Hearing at the site in accordance with the Zoning Regulations.
9. Submit all letters of support and any additional documentation to the Zoning Commission prior to the Public Hearing.
10. Present the project to the Zoning Commission at the Public Hearing. The presentation team should include land-use attorney; architect; engineers; landscape architect; and traffic/parking/transportation consultant. Support from the ANC and neighborhood stakeholders should also be provided in the form of letters and testimony at the hearing. The Office of Planning will present their report and findings at the hearing as well.
11. Provide any additional follow-up documentation that is requested by the Zoning Commission and/or schedule a second Public Hearing if necessary.
12. Have the approved PUD and site plan recorded by the Zoning Commission.

The PUD process is expected to be 9-12 months overall and could be longer if additional meetings are required. The PUD process must take place prior to the acquisition of the properties. The following items are critical to the success of the PUD and the project

- Support of the ANC, in this case ANC5A.
- Conformance with the Small Area Plan.
- Support of the Office of Planning.
- Community Benefits.
- Purchase contracts contingent on PUD approval and recordation.
- Approval and recordation of the PUD prior to proceeding with design development drawings.

The proposed project will result in substantial community benefits in the form of the removal of the incompatible light industrial uses, creation of student housing, and creation of neighborhood retail and is in compliance with the SAP; therefore it is expected to achieve PUD approval. Subsequently, the proposed project will require the submission of an Environmental Impact Screening Form (”EISF”) and building permit application. The review of the EISF and building permit application are administrative processes and thus will be approved assuming all regulations and standards are met.

Site Acquisition and Assemblage

The proposed project will require the assemblage of four separately owned but contiguous properties. Each of the properties is home to existing businesses t are currently operating, two of which are owned by the business that is currently operating on the site and two are leased by the businesses on the site. The presence of existing businesses shows that the sites are economically viable for both the owners and the tenants under their current uses. However, the density afforded by both the existing zoning, Small Area Plan, and planned PUD results in a higher and better use at a greater value than the current uses. Land directly adjacent to metro stations in close proximity to downtown DC and major institutions is extremely scarce. It is not essential to the business interests of any of the current occupants to be located adjacent a metro station. Nor do the current occupants receive any substantial benefit by being located adjacent a metro station – all of the businesses are “automobile-centric” and thus could be re-located to comparable sites that serve the same market that do not have more economically advantageous alternate uses.

Assemblage of all four sites is critical to the project. The assemblage will require negotiations with owner occupants for sites “C” and “D”. In the case of an owner occupant, the financial offer must be enough to compensate the owner not only for the value of the land but also must allow the owner to find a financially feasible, comparable space for the business to relocate, cover moving costs, and compel the owner to move. For the sites that are not owner occupied, simultaneous negotiations with both the land owner and business operator will be required. The land owner will need to be compensated for the value of the land. The business owner will need to be compensated for the buyout of any remaining term of their lease at rates that compensate them for moving and relocation costs.

Additionally it will be advantageous to help each owner or operator to identify alternate sites in the same market area that are feasible for relocation. A more extreme method can also be employed by placing alternate sites under contract and proposing a land swap.

Considerable time will be needed to meet with both owners and occupants, prepare and present offers, negotiate letters of intent and negotiate purchase and sale agreements. Therefore, an experienced broker will be hired to act on behalf of the development entity under an exclusive agency agreement that is specific to this assemblage. Broker fees generally range from 2.5%-3.5%, however the cost of the broker will be nominal when factored into the overall development budget.

A detailed site by site acquisition plan is included as Attachment “C”. The total acquisition budget is estimated to be approximately $4.5 Million or $21.00 per gross square foot of FAR. There is potential to also assemble additional properties, most significantly, the adjacent Comcast Cable office maintenance yard directly behind the proposed site, which includes over 172,000 square feet of land. However this site is zoned CM1, which does not allow for mixed-use development and would require a potentially more tenuous PUD approval process. The success of the proposed project could lead to future opportunities on the Comcast site.

Market Analysis

National Overview:

Economy:

Global economies continue to reel from the impact of the September 2008 financial markets crises. In a circular trend, real estate markets have been significantly affected by the financial market meltdown which was caused in part by the faltering residential real estate market. This volatility is likely to continue for the foreseeable future until the capital markets are able to stabilize. It is likely that the U.S. economy will move into a moderate to sever recession in 2009, despite some forecasts of economic growth. The national economy continues to experience sluggish conditions, as companies have cut jobs for eight straight months resulting in an unemployment rate at a five year high, and inflation for the year is running higher than the Federal Reserve’s target of 2.0%,. Prices were up 2.5% during the 12 months ending in August 2008, although there are now concerns about deflation in more recent months as prices declined by 0.1% in October due to the overall economic slowdown and reduced energy costs

ECONOMIC INDICATORS

	2007	2008	2009F
GDP Growth	2.2%	1.6%	2.0%
30 Year Treasury Interest Rate	4.8%	4.7%	5.9%
CPI Growth	2.9%	4.4%	2.6%
Unemployment (Region)	3.2%	3.7%	4.7%
Employment Growth (Region)	1.0%	0.9%	0.9%
Population & Household Income (Region)	5.3 m $82,223	5.3 m $83,925	5.4 m $85,183

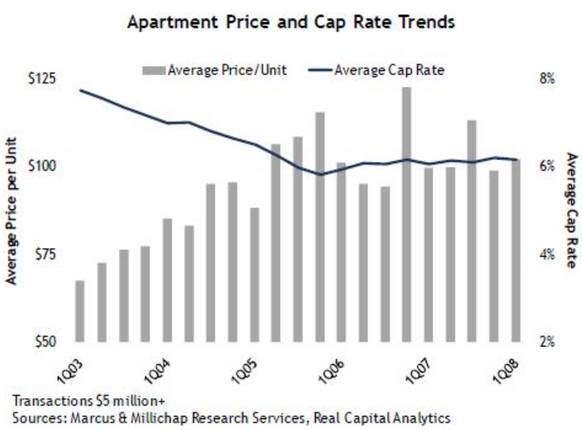
Source: Economy.com

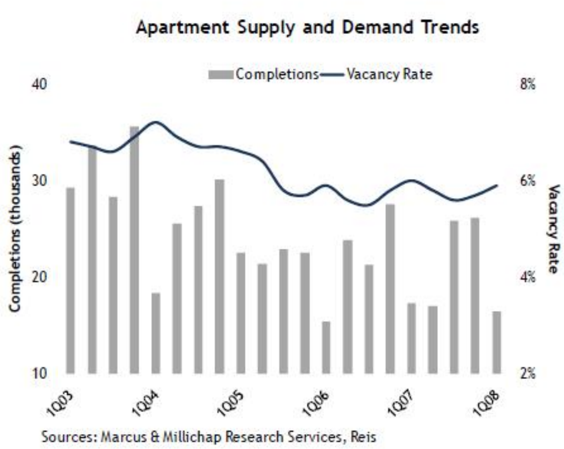
The Federal Reserve projects inflation for the year of 2008 to be between 2.1% and 2.4%. According to the Bureau of Economic Analysis GDP (seasonally adjusted annual rates) grew 0.81% during the 2nd quarter of 2008, after a 0.22% rise during the 1st quarter. Notably, the 2nd quarter growth was boosted by the Federal economic stimulus checks and a jump in U.S. exports due to a weak dollar.

Sources: Economy.com; Federal Reserve; Bureau of Economic Analysis; Cushman Wakefield

National Apartment Market:

The slowdown in the national economy has had a significant impact on the national apartment market. Vacancies have increased due poor job growth and unemployment. Vacancies have also been impacted by shadow rental markets as single-family and condo rentals are competing with apartments, particularly in over-built housing markets. However, there has been a substantial slowdown in construction spending in recent months, which will reduce the pipeline of projects and likely put downward pressure on vacancies in the next 12-18 months.





Rent growth is slowing but is still positive as construction starts are dropping. Approximately 100,000 apartments are expected to deliver in 2008, up from 87,000 units in 2007, equivalent to a 1 % addition to stock. Rising concessions and the slower economy will limit effective rent growth to 3.0 t to 3.5%t where rent growth was greater than 5% in 2007.

Apartments have been the least impacted by the credit crunch due to increased lending by Fannie Mae and Freddie Mac, but sales volume has still registered a sizable decline. Tighter underwriting, greater lender caution and a price expectations gap between buyers and sellers are affecting investment activity, particularly in secondary and tertiary markets. During the first quarter of 2008, apartment transactions were down an estimated 35 percent from the same period in 2007, and sales volume was down 40 percent. Buyers are typically focusing on higher-quality properties in primary markets, limiting the price pressure in this category. Lower-quality properties in secondary and tertiary markets or submarkets are seeing the largest price gap due to fewer buyers and lenders in these segments. The national median price increased modestly during the first quarter to $114,500 per unit, while the average cap rate increased 20 basis points to 6.2 percent.

Sources: Cushman Wakefield, Delta Associates; Marcus and Millichap

National Student Housing Market:

Despite the state of the overall economy many of the 75 million children of the Baby Boomers (also known as “Echo Boomers”) who were born between 1976 and 1994 will be enrolling in college this decade. University enrollment is increasing across the country. As a result, many apartment firms see a desirable market niche in providing housing for college students. The Department of Education estimates that college enrollment will increase by 1.3 million students from 2006 to 2011. Full-time enrollment, the more relevant figure to the student housing market, will increase by 956,000 or approximately 8.9 percent to 11.17 million students.

Colleges have been unable to meet the demand of the “Echo Boomer” enrollment in traditional on-campus housing. This problem is especially critical at state supported institutions, where funding is short. State-funded institutions face difficulty in maintaining their current stock of aging dormitories and residence halls, many of which were built in the 1960s and 1970s, the last era of rapid enrollment growth. The problem is also critical for urban campuses which lack the space to expand residential facilities and nearby land is extremely expensive to develop. Although dormitory construction is on the rise (College Planning & Management reported that 69 percent of colleges were building or planning to build more on-campus space in 2005), the supply will not keep up with demand. The private sector is moving to fill the gap throughout the nation as investors see a niche market offering unique opportunities to exploit.

The U.S. student housing market consists of about 7.5 million beds of which 2.2 million are located in on-campus residence halls and apartments. The balance is largely made up of locally-owned and managed properties, many in converted single-family homes, duplexes and older traditional apartment buildings. This fragmented industry of small local operators meets the housing needs of a significant body of students, particularly the cost sensitive segment that self-finances education and living expenses. But a growing population of students seeks and can afford secure modern housing with luxury amenities that nevertheless retains the atmosphere and convenience of an on-campus residence hall. Developers are responding with new construction properties tailored specifically to meet the needs of this niche market.

Due to the high level of demand for modern student housing, occupancy rates are generally higher than in the market-rate family segment. Bed occupancy rates ranging from 97 to 100%are common at institutional quality projects located directly adjacent to large universities. Tenant demand varies seasonally and can be relatively low during the summer months. Most student housing providers address this issue by requiring tenants to sign full twelve month leases. It also is worth noting that demand for student housing does not fluctuate a great deal during times of economic distress or when household housing preferences shift from rental tenancy to homeownership, as is frequently observed in the multifamily rental market. College enrollment, and therefore the demand for student housing, is primarily a factor of age demographics.

Rents vary widely by market and according to the quality of the property. Recently constructed properties typically command rents ranging from $350 to $450 per bed at campuses located in small towns, rural and suburban areas. However, rents in land scarce markets like Southern California, the Mid-Atlantic, and New York reach $800-$1,000 per bed or more. Rents are typically comparable to or not more than 20 percent above the annual cost of on-campus dormitory space.

Sources: Red Capital Corporation; National Multi-Family Housing Council

DC Metro Area Overview:

Washington DC, the nation’s capital, is situated on the eastern seaboard approximately 235 miles south of New York City. It has an attractive network of interstate highways providing excellent access to other cities on the East Coast. The metropolitan Washington, DC area is generally considered to be all of the Washington Metropolitan Statistical Area (MSA) as defined by the U.S. Department of Commerce, Bureau of the Census. The Washington MSA currently includes:

- The District of Columbia
- The Suburban Maryland counties of Calvert, Charles, Frederick, Montgomery and Prince George's
- The Northern Virginia counties and jurisdictions of Alexandria, Arlington, Clarke, Culpeper, Fairfax, Fairfax City, Falls Church, Fauquier, Fredericksburg City, King

George, Loudoun, Manassas City, Manassas Park City, Prince William, Spotsylvania, Stafford, and Warren

- The West Virginia counties of Jefferson and Berkeley.

The region is home to the federal government and most of its supporting federal agencies. The Washington Metropolitan Area is identified internationally by its numerous national institutions including the White House, the Capitol, the Supreme Court, Arlington Cemetery, the Pentagon, and the Smithsonian Museum complex.

Population

The rate of growth or decline in an area's population base is a highly significant indicator of change within a regional economy, and has direct and obvious effects on real estate values. Since the supply of land is fixed, the demand for real property will be affected by an increase or decrease in the population base. This pattern of demand is reflected in values for the whole spectrum of property types within the region.

The Washington MSA registered 1.6% annual growth between 1980 and 2000. This is significantly higher than all of the competitive metropolitan areas with the exception of Atlanta and Boston. Over the next five years, the Washington MSA is projected to grow at an annual pace of 1.3%, adding approximately 352,163 people.

The District of Columbia has seen years of population decline as residents shifted from the center city to the suburbs. The District of Columbia experienced the largest decline with a loss of over 66,000 persons between 1980 and 2000, which is approximately 10.4% of its 1980 population. During this same period, the Maryland suburbs increased by 40.8%, or almost 600,000 people, and the Virginia suburbs increased 67.2%, or over 870,000 people. This trend of inner-city population decline is expected to end and begin to increase over the next five years at a rate of 0.7%. From 2000 to 2008, the population in the District increased by 1.8%. As with many large cities, the District of Columbia is experiencing a spark in urban revitalization as some suburban residents rediscover city life. However, the vast majority of population growth in the rapidly growing metropolitan Washington area is within the outer suburban communities. These jurisdictions are better able to attract the majority of new area residents as a result of lower taxes and crime rates coupled with better employment opportunities, municipal services and public schools.

Areas with large amounts of available land with appropriate infrastructure in place will capture the largest share of the region's growth. Rapid growth is projected in Virginia's

Loudoun, Prince William, Spotsylvania, Culpeper, King George, and Stafford Counties and Maryland's Calvert, Charles and Frederick Counties.

Sources: US Census American Community Survey; DC Office of Planning

Student Population

The District of Columbia is home to thirteen public and private, four-year colleges and universities:

- American University
- The Catholic University of America
- Corcoran College of Art and Design
- Gallaudet University
- George Washington University
- Georgetown University
- Howard University
- Southeastern University
- Strayer University
- Trinity Washington University
- Wesley Theological Seminary
- University of the District of Columbia

Additionally, several graduate institutions are located in the District, and branch/satellite campus locations of major colleges and universities such as Johns Hopkins University and the Institute of World Politics. Several major universities are located in the nearby suburbs, outside of the District including the University of Maryland College Park and George Mason University. As of 2007 the DC Metro area had an undergraduate student population of 318,308, of which approximately 12.2% or 38,870 reside in the District. A larger portion of the Metro-wide graduate student population resides in the district – 21,235 out of 111,833 or approximately 19%. DC has seen a massive increase in college student population in recent years as evidenced by a 53% increase from 2002 (39,362 total) to 2007 (60,105 total).

Sources: US Census American Community Survey; DC Office of Planning

DC Metro Area Economic Overview

Despite the slowdown in the national economy, the DC Metro area economy continued to produce jobs, as 35,400 jobs in the 12 months ending in July 2008 were created. While this is less than the long term average of 53,400 per year, it was significantly better than most of the nation which has seen a decline in jobs over the last year and was good enough to rank third in the nation. The Metro area unemployment rate increased by 90 basis points during the past year to 4.1% in July 2008. However, the Metro area has the lowest unemployment rate among comparable cities and compares favorably to the national rate of 5.7% in July 2008.

The Washington area's gross regional product (GRP) was $367.9 billion in 2007, an increase of 5.6% from revised 2006 figures. The Metro area economy will likely make modest gains in 2008, as the aftermath of the financial crises continues to unfold. Although growth will be slow, it is anticipated that conditions will improve modestly in 2009, with healthier progress in 2010 as the economy regains its footing. With a low unemployment rate and one of the strongest economic bases, the Metro area remains one of the top economic centers in the nation.

Source: Delta Associates; Cushman Wakefield; Marcus and Milllichap; DC Economic Partnership

DC Metro Area Apartment Market

The Metro area's stabilized vacancy rate for Class A and B apartments increased to 3.0% from 2.7% from 2007 to 2008. With the national rate of 6.0%, this is still one of the lowest vacancy rates of any metro area in the nation. Rent increases over the past 12 months for both Class A and B product remained below the long-term average of 4.5% per year at 2.9% since September 2007. Annual net absorption continues to strengthen after slowing in 2005 and 2006 due to a shift from renting to home ownership. 7,583 Class A and B apartments were absorbed in the last year and were among the highest in the nation and highest ever recorded for the Metro area. Average monthly absorption at new projects declined slightly to 15 units per month. Due to increased supply and competition for renters, concessions moved higher, to 4.3% of face rent in the 3rd quarter of 2008, compared to third quarter 2007, which were 3.6% of face rent. After rising from a historically low 18,000 units in 2005, the apartment pipeline ballooned to 36,951 units in December 2007, largely driven by the reversion of condominium projects. In the first quarter of 2008, the pipeline appears to leveled and dropped to 29,322 as of third quarter 2008. Investment sales in the Metro Area declined in 2008 from the record setting pace of years of prior. Thus far in 2008, there have been $850.71 million of multifamily Class A building sales compared to $1.26 billion through the third quarter of 2007. Much of the decline is attributable to the difficulty of obtaining financing and the reduction in the number of sales for conversion to condominiums.

Sources: Delta Associates; Cushman Wakefield; Marcus and Milllichap

Submarket Overview:

Neighborhood

While Brookland is generally considered to be economically stable, the neighborhood has not seen the rapid development that has characterized other parts of the district (especially areas near Metro Stations) and adjacent neighborhoods such as Petworth, Columbia Heights, Fort Totten, and Eckington/NoMa. Reasons for the lack of development in Brookland generally stem from the current land uses and zoning in the area and lack of developable sites, which was a primary justification for the Office of Planning in initiating the neighborhood Small Area Plan. There are several very large projects currently being planned for areas directly adjacent to Brookland. These include:

- **McMillan Sand Filtration Site** – Located approximately one mile southeast of the site at the southwest corner of Michigan Avenue and North Capitol Street, the redevelopment of a 25 acre site will feature over 1,100 residential units; 600,000 square feet of office space; 110,000 square feet of retail space; a hotel; and parks and open space. Construction of the initial phases is planned for 2010 with delivery in 2013. The project is being developed by a partnership between EYA, JAIR LYNCH Development Partners, The Alexander Companies, Smoot Construction, and Urban Services Systems.
- **Armed Forces Retirement Home** – Located one mile northwest of the site, the development of 77 acres by Crescent Resources. Initial plans call for 780,000 square feet of office, 125 hotel rooms more than 2,530 residential units, 214,000 square feet of retail space and approximately 700,000 square feet of medical space office space to be delivered over the next ten years.
- **Catholic University Parcel** – Located three blocks west of the site at Michigan Avenue and 7th Street. The nine acre site owned by Catholic University will be developed by Abdo Development in 2012 and will include 900 residential units and retail space.

It should be noted that currently, none of these projects have specifically planned to include a student housing component in the development program.

Source: DC Economic Partnership

The Brookland neighborhood contained a total of 27,394 residents and 10,871 households in 2006. From 1990 to 2006, a steady loss in population and households occurred primarily due to smaller households replacing larger ones that moved out of the neighborhood. Senior householders (age 65 years or older) represented the highest percentage of householders at 29.6% followed by mature householders (45 to 55 years) at 21.5%. The prevalence of older householders in the Market Area makes it somewhat vulnerable to future decline as residents' age and their need to downsize to smaller units increases. Owners outnumber renters (58.2% to 41.8%) with the majority of homeowners owning their homes since 1979. The neighborhood's 2006 median household income of $48,966 exceeded the pace of inflation over the past six years, evidencing the strength of the community's earning power. Approximately 35.7 %of neighborhood households earned between $35,000 and $74,999 annually in 2006 compared to 30.3 percent of District households.

The many features of Brookland heavily influence its residential market. Due to its large and continuous transient population, its rental market is quite strong with all managed properties performing at a 96 percent occupancy rate or better. To some extent, however, the recent wave of rental properties converting into condominiums during the last five years tightened the existing rental supply in the Market Area. The prevalence of individual property owners renting out their housing units provides some relief to rental market demand. The private rental arena offers comparable rents and square footages and tends to include utilities, more personal space and a better amenity package.

Sources: DC Economic Partnership; DC Office of Planning

Market Demand

The primary driver of the student population in Brookland is Catholic University and Trinity Washington University, although there is also some secondary demand from other institutions nearby such as Howard University and Gallaudet University, both located within two miles of the project site. Given the site's proximity to Metro, there may also be some demand from other colleges in the region such as University of Maryland College Park, Georgetown University, George Washington University and American University. However, due to the location of the site immediately adjacent to their Campuses, CUA and Trinity will be the focus of this analysis.

Trinity Washington University:

Trinity University is a small liberal arts college that is primarily a women only institution although men are admitted to the school of education. There are approximately 1,011 undergraduate students. Trinity does not offer graduate programs. The campus is 35 acres and is located about less than one mile west of the site on Michigan Avenue. Students are not required to live on campus and on campus housing is not guaranteed. Approximately 53% of first year students live on campus and 22% of all students live on campus.

Catholic University of America:

CUA is a much larger and better established university than Trinity. CUA is a co-ed campus with nearly equal population of men and women. CUA offers undergraduate, graduate, doctoral and professional degree programs. There are approximately 3,326 undergraduate students and 2,144 graduate students. The campus is 165 acres and is located directly across the metro train tracks from the site, approximately ¼ mile west on Michigan Avenue. CUA requires that all Freshman and Sophomores (unless they are over the age of 21) live on campus. Housing is available for upper classmen, but it is not guaranteed. Approximately 94% of first year students live on campus and 68% of all students live on campus.

Sources: CollegeBoard.com; Catholic University of America Website; Trinity Washington University Website.

Competitive Supply

There are three primary sources of competition for student housing in Brookland: **1** – Campus housing at CUA and Trinity; **2** – Single family homes and condominiums within the neighborhood that are rented to students; **3** – Large multi-family apartment complexes within the Brookland submarket.

- **Campus Housing**
    - Trinity provides on-campus housing for both upper and lower class students in two residence halls that accommodate approximately 250 students. Both residence halls are traditional dorm style units with shared bathrooms and offer no modern amenities. Students are not allowed to live in on--campus housing during winter and summer breaks without being enrolled in classes during those breaks.

    - CUA provides on-campus housing for both upper and lower class students in nine residence communities. There is currently housing available for 1,907 students primarily in traditional dorm rooms with shared bathrooms. A new residence hall - Opus Hall - that will house an additional 900 students in apartment style units is schedule for completion by the fall semester of 2009, bringing the total housing available to 2,807. CUA plans to demolish two existing residence halls for future mixed-use development that will reduce the available on campus housing to 2,391. With the exception of the 900 bed Opus Hall complex currently under construction most residence facilities have very few of the amenities that are now common among new student housing facilities such as those planned for this project. Students are not allowed to live in on campus housing during winter and summer breaks without being enrolled in classes during those breaks.

- **Single Family Homes and Condominiums** – The Brookland market area contains 2,095 residential units of which 64.1% are owner occupied leaving approximately 752 units available for rent in the Brookland neighborhood. The majority of Brookland's housing stock consisted of single-family homes built prior to 1970. Many homes are rented to college students due to their proximity to CUA and Trinity campuses. These homes offer an appealing alternative to on campus living especially as they allow year round use, however many are poor quality and lack amenities available at larger multi-family complexes.

- **Large Multi-Family Apartments** – The Cloisters, is the only large multifamily apartment complex located in the Brookland market area and is the only multifamily apartment complex within walking distance of CUA and Trinity Campuses. It is located approximately ½ mile west of CUA's campus at Michigan Avenue and North Capitol Street NE. The Cloisters is a 352 unit garden style apartment complex built in the mid 1970s. The complex features a mix of 1, 2 and 3 bedroom units with amenities such as in-unit washer/dryer, fitness center, central a/c and modern kitchens.

Sources: US Census; Catholic University and Trinity Washington University Websites; DC Office of Planning; Rent.com

Projected Capture Rate

The demand for student housing is driven directly by the student populations of CUA and Trinity. With a total student population of 6,481 from these institutions alone there is a significant demand for student housing in Brookland. Assuming all available on campus housing is utilized by students there is a residual demand of 3,840 for off campus housing. A notable portion of these students likely commute from neighborhoods outside of Brookland and thus would not contribute to demand for student housing in Brookland. This would be offset by two factors: A substantial number of students that currently do not to live in Brookland due to the lack of housing options but would otherwise desire to live in the neighborhood; and demand from nearby colleges such as Howard University and Gallaudet University. Additionally, a well located, high quality residential project that offers outstanding service and amenities at a price comparable to on-campus housing options would attract some of the current demand for on campus housing. There is very little competition in the Brookland market area for off-campus housing. The single family home and condominium market is very limited and does not offer the superior location of the proposed project, individual leases, furnished apartments, and modern amenities such as party rooms and a fitness center. The Cloisters apartment complex offers many of these amenities but is outdated in both design and level of finish and does not have easy access to metro, neighborhood retail amenities, or individualized leases. A well designed project that is priced comparably to alternative options could capture as much as 15% of the off campus housing demand, which would exceed the 476 beds being planned in the Brookland Student Center project.

Projected Residential Rents

A successful student housing project at this site will need to offer rents that are comparable to on campus housing and other off campus housing in the area but are commensurate with the locational advantages/disadvantages and amenities provided. For this analysis, CUA and Trinity on campus housing options are analyzed, along with the primary off-campus apartment option, the Cloisters. Additionally, the Towers at University Town Center complex is analyzed as it is the only comparable “shared apartment” student housing model in the DC Metro Area. University Town Center (UTC) is located in Hyattsville, MD, approximately, 3.5 miles northeast of Brookland. UTC is similar to the proposed project in that it is located near the campus of a major University (University of Maryland College Park); is directly adjacent to a Metro Station (Prince George’s Plaza); is located in a high-density, mixed use development, and is designed to offer students an attractive alternative to on campus living with high-end finishes and modern amenities.

Catholic University			
Room Type	**Rent/Student/Semester**	**Imputed Rent/Month***	**Comments:**
Standard Double Dorm w/ shared bath	$3,268.00	$817.00	Includes all utilities and internet service. Furnished w/ bed, dresser and desk.
Standard Double Dorm w/ private bath	$3,857.00	$964.25	Includes all utilities and internet service. Furnished w/ bed, dresser and desk.
Double Apartment	$4,221.00	$1,055.25	Includes all utilities and internet service.
Average		**$945.50**	
* imputed rent per month based on four month semester			

Trinity Washington University			
Room Type	**Rent/Student/Semester**	**Imputed Rent/Month***	**Comments:**
Standard Single Dorm w/ shared bath	$2,157.00	$539.25	Includes all utilities and internet service. Furnished w/ bed, dresser and desk.
Standard Double Dorm w/ Shared bath	$1,825.00	$456.25	Includes all utilities and internet service. Furnished w/ bed, dresser and desk.
Average		**$497.75.50**	
* imputed rent per month based on four month semester			

The Cloisters			
Unit Type	**Rent**	**Rent/Bed**	**Comments:**
One Bedroom	$1,425.00	$1,425.00	Unfurnished – tenant pays all utilities.
Two Bedroom	$1,525.00	$762.50	Unfurnished – tenant pays all utilities.
Three Bedroom	$1,930.00	$643.33	Unfurnished – tenant pays all utilities.
Average		**$943.61**	

The Towers at University Town Center			
Unit Type	**Rent**	**Rent/Bed**	**Comments:**
One Bedroom	$1,890.00	$945.00	Each bedroom has private bath. Bedrooms are fully furnished. Tenants pay electric.
Three Bedroom	$3,000.00	$1,500.00	Two-level townhouse style unit. Each bedroom has private bath. Bedrooms are fully furnished. Tenants pay electric.
Four Bedroom	$3,240.00	$1,080.00	Each bedroom has private bath. Bedrooms are fully furnished. Tenants pay electric.
Average		**$1,175.00**	

While traditional multi-family apartments are analyzed on a rent per square foot basis, student housing is typically analyzed on a rent per bed basis as the unit sizes are substantially smaller than market rate apartments and are often compared to on campus housing options for which prices are on a per student basis. The proposed project will compete most directly with on campus housing at CUA and the Cloisters, both of which average roughly $950 per bed. The proposed project will have better amenities and location but will require tenants pay all utilities. It is also important to establish a relatively new product type in the market by offering a better value than existing projects. The proposed rent structure will target an average of $800 per bed with the smaller two-bedroom units charging a premium and the larger four-bedroom units at a discount.

Brookland Student Center					
Unit Type	**Number**	**Avg SF**	**Rent/Bed**	**Rent/Unit**	**Comments:**
Two Bedroom	79	800	$850.00	$1,800.00	Fully furnished. Each bedroom has private bath. Tenant pays all utilities.
Four Bedroom	80	1,200	$750.00	$3,400.00	Fully furnished. Each bedroom has private bath. Tenant pays all utilities.
Average		**$1,000.00**	**$800.00**	**$2,600.00**	

Retail Market Analysis

The proposed project will include 16,519 square feet of retail space. The potential for new retail development within any neighborhood depends primarily on income levels and spending patterns of the residents to be served. Other factors include the strength of nearby existing and proposed competition and the ability to capture inflow expenditures from visitors, commuters and passers-by. Brookland itself has very little retail. Most of the retail is neighborhood serving and is located along the 12th Street Corridor. According to the DC Economic Partnership, there are 27 retail business operating in Brookland. The majority of retail spending in the Brookland neighborhood is done in large shopping centers outside of Brookland such as the Brentwood Plaza Shopping Center at Rhode Island Avenue and 8th Street NE and the Brentwood Center Shopping Center at Rhode Island Avenue and 4th Street NE, Both are located about one mile south of the site. Combined, these shopping centers include over 500,000 square feet of retail space with an additional 55,000 square feet of space in the pipeline. The existing retail provides a healthy mix of tenants and includes two full service grocery stores (Safeway and Giant) and a full service hardware store (Home Depot).

The DC Office of Planning, as part of the Small Area Plan performed a retail market analysis of the Brookland neighborhood. The report is based on an analysis of supportable retail and service space and an understanding of local competition in the neighborhood. It identified the key local retail opportunities for Brookland:

- Small specialty retailers such as a small music retailer, music equipment seller or electronic store - 2,000 to 3,500 square feet each.
- A small bookseller of 1,500 to 2,500 square feet.
- Health and personal care store 5,000 square feet.
- Furniture or home furnishings store 2,500 to 3,500 square feet.
- A quality, sit-down restaurant 3,500 square feet.

The report also noted that retail in the neighborhood should focus on capturing dollars spent by students living on CUA's campus (a population limited by income and transportation) as well as faculty, staff, and visitors that will assist in the success of any new retail stock. Additional advantages for new retailers on selected sites include visibility and accessibility to a main arterial street such as Michigan Avenue, by offering a selection of convenience goods and services (items not as prone to comparison shopping) such as quality sit-down restaurants and merchandise directly related to university stakeholders. Additionally, unique entertainment options appealing to residents, students and visitors alike would likely fair well.

Sources: DC Office of Planning

Projected Retail Rents

The Office of Planning's retail study includes an analysis of area retail rents. Many retail spaces in Brookland are owner occupied, however the remaining spaces had an average rental rate of $25.00 per square foot on a triple-net basis. Given the retail space in the proposed project is relatively minor compared to the residential component and will target neighborhood serving retail businesses, $25.00 per square foot rents are conservatively projected for the newly constructed retail space in Brookland Student Center. In order to attract retail businesses to a relatively unknown market, a healthy $50.00 per square foot tenant improvement allowance will be assumed.

Project Design and Construction

Design Procurement

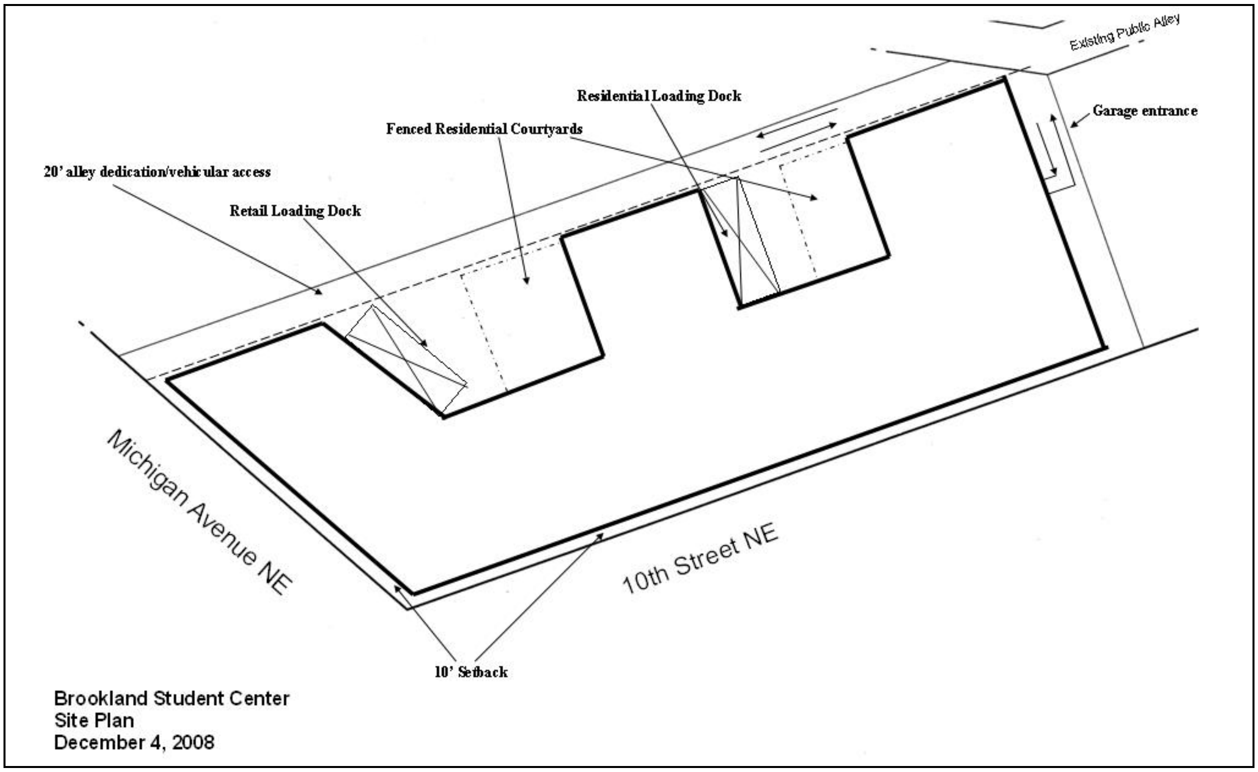
The selection of a project architect is critical to the success of the project. It is important to identify a design team that has significant experience with both urban mixed-use projects and student housing. The project architect will be procured at inception of the project by issuing a request for proposals from a pre-qualified list of no less than four firms. In order to minimize design and coordination risk, the architect will be expected to hold contracts with all design consultants including civil, structural, mechanical/plumbing, electrical, waterproofing, landscape architecture, and acoustical consultants. Proposals will be evaluated on a combination of firm and staff experience, consultant team experience and price. The architect will be expected to execute an AIA B101 Owner/Architect Agreement.

Design Narrative

While the final design selections will be determined in coordination with the selected architect, a preliminary building conceptual analysis has been completed. The proposed project will be a six-story building mixed-use with a total of 215,000 square feet of gross building area and will include 165 residential units built over 16,500 square feet of ground level retail space. A one story below grade garage will be constructed with 129 parking spaces of which 97 will be allocated to the student housing component and 32 reserved for retail parking. The ground level will include retail space, the residential lobby, and residential amenity space and some residential units in the rear of the building with access to exterior courtyards. Residential space will be located in the upper five levels. The building will be oriented such that there is visibility of the retail space from Michigan Avenue and 10th Street. The building will front directly on 10th Street allowing for access to both the retail and residential components. There will be minimal setbacks from all streets to maintain the urban character of the neighborhood and provide a strong presence on 10th Street and allow for easy pedestrian access to and from the building, especially from the adjacent Metro Station. The retail space will be divided into six retail bays averaging 2,750 square feet each.

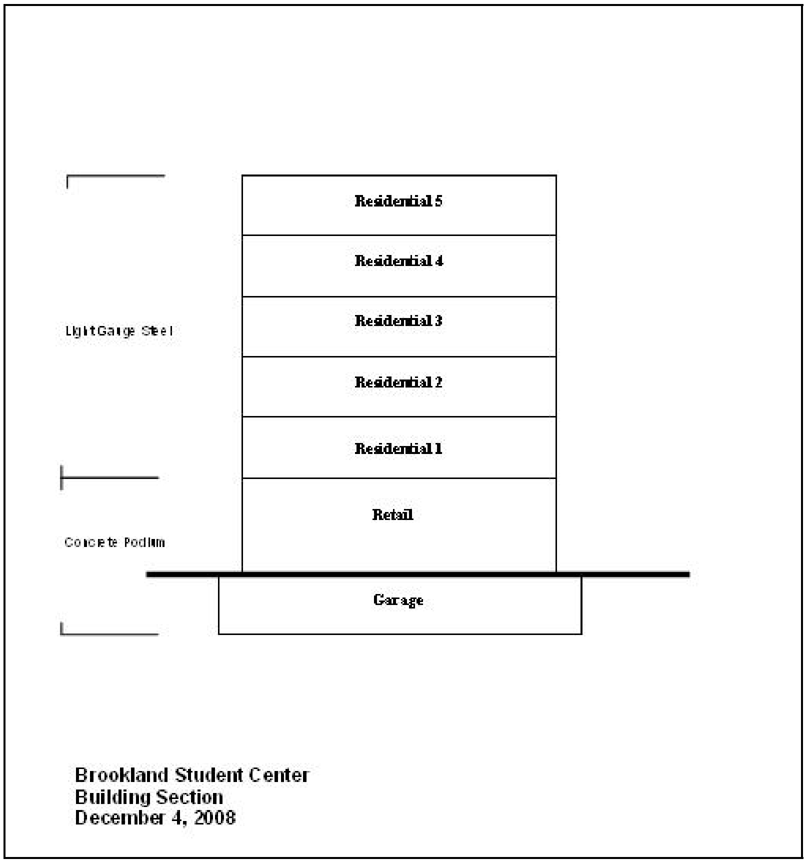
Program Summary	Total Area	Gross Residential Area	Gross Retail Area
Ground Level	35,880	19,361	16,519
2nd Floor	35,880	35,880	0
3rd Floor	35,880	35,880	0
4th Floor	35,880	35,880	0
5th Floor	35,880	35,880	0
6th Floor	35,880	35,880	0
TOTAL	215,280	198,761	16,519

A portion of the rear of the site will be dedicated to the DC Government for the future 9th Street right-of way as part of the PUD process. In the interim, the dedication will be used as an alley that provides access to the loading dock and parking garage. The rear of the building will also house private courtyards for some ground level residential units. All retail spaces (with the exception of one small convenience retail bay) will have direct access to the rear alley for loading and deliveries.



Conceptual Site Plan

Both the garage and ground level space will be constructed as a concrete podium. The residential space will be constructed of a light gauge steel structure likely utilizing a proprietary structural system such as an "Inifnity" or "Hambro" system. The residential component is greater than four stories; therefore wood framed "stick" construction is not possible. A light gauge steel system will provide significant cost savings over concrete construction for a building of this size. The retail space will have a 15' clear floor to ceiling height with 11' floor to floor heights for the residential levels resulting in a 70' overall building height.

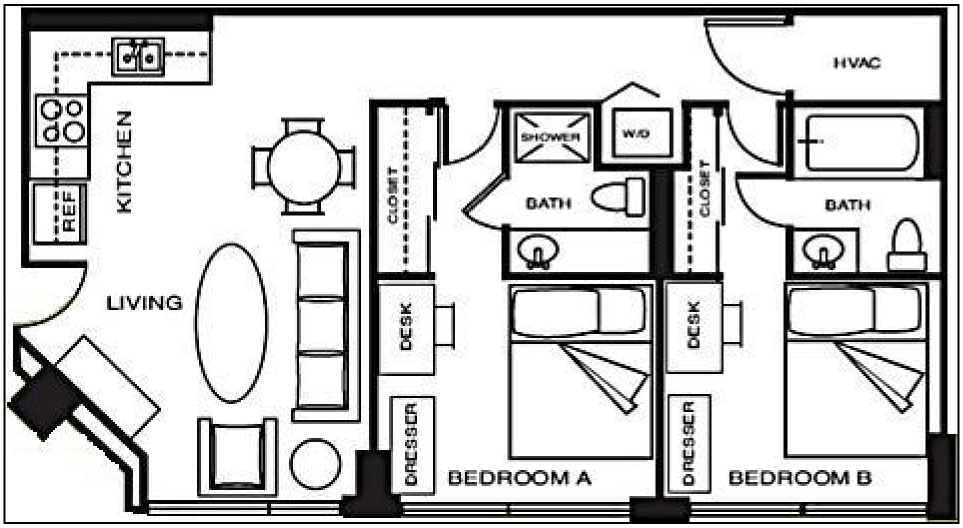


Building Section

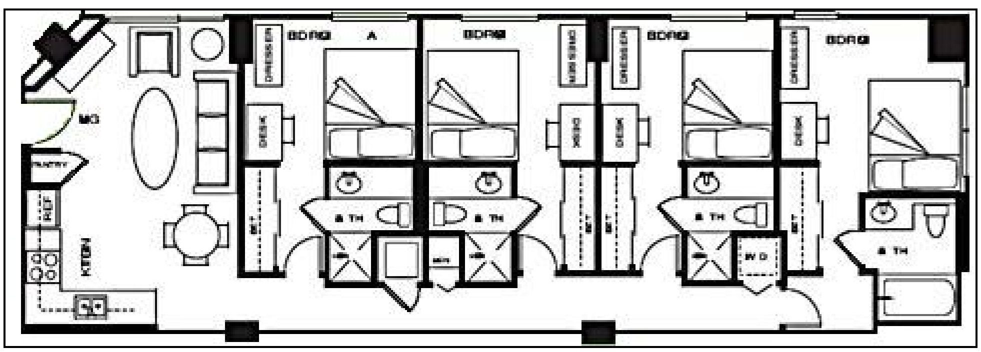
The residential units will be a mix of two and four-bedroom “shared” apartments. Two-bedroom units will average 800 square feet per unit. Four-bedroom units will average 1,200 square feet per unit. There will be 80 two-bedroom units and 79 four-bedroom units, resulting in a 476 total bed project. It is expected that the residential design will be approximately 80% efficient, meaning that 80% of the gross residential area will be rentable unit space with the remaining 20% of the gross residential area used for common spaces, hallways, lobbies, and amenity space. Each bedroom will have a private bathroom. The bedrooms will center on a shared living area with kitchen. The interiors

Residential Program Summary			
Gross Residential Area	198,761		
Residential Efficiency Factor	80.00%		
Net Residential Area	159,009		
Residential Common Space	39,752		
Average Unit Size	1,000		
Total Residential Units	159		
	Number	Avg SF	Beds
2 Bedroom Units	80	800	166
4 Bedroom Units	79	1,200	328
Total	165	1,000	494

will receive high end finishes that will differentiate the project from other student housing projects.



Sample 2-Bedroom Floor Plan



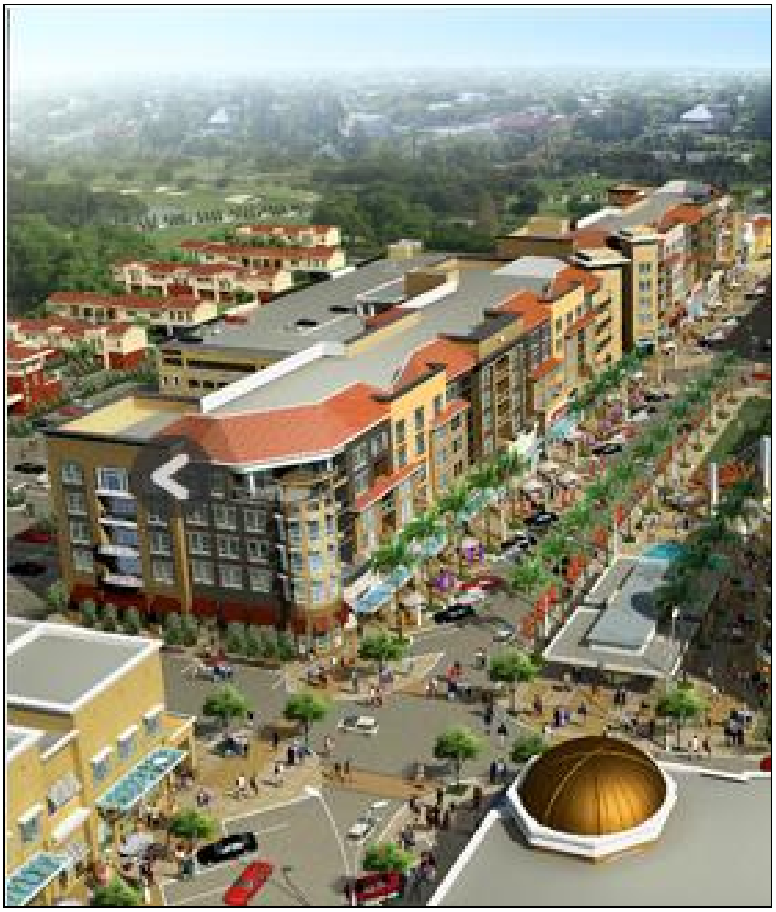
Sample 4-Bedroom Floor Plan

The exterior architecture of the building will need to be both economical but also aesthetically pleasing and fit within the urban context of the site and the Brookland neighborhood. The target market for the project is young college students, therefore special attention will be needed to ensure the project is both modern and feature cutting edge design elements. While Brookland is not designated as an historic neighborhood, many of the structures within the neighborhood are designated historic and the area has many historic characteristics. There are numerous examples of other projects in the District that incorporate modern architecture in historic neighborhoods.

Representative Architectural Examples

Hawthorne Place – Laurel, MD
Hord Coplan Macht Architects

Hawthorne Place – Laurel, MD
Hord Coplan Macht Architects



Mercato – Atlanta, GA
Cooper Cary Architects

Solea – Washington, DC
Sorg and Associates

Construction Management Plan

Execution of the construction of the proposed project is absolutely crucial to the ultimate success of the project. The project is very unique in both product type and design, and therefore will require input from a general contractor on the construction budget, design details, scheduling and constructability at a very early stage in the process. Upon receipt of entitlements, at the outset of design development, a general contractor with experience in residential construction of this building type will be procured. Procurement will be done on the basis of general conditions and fixed fee, which will allow the contractor to provide pre-construction services during the design phase. The construction contract should be open book and require a minimum of three bids per trade at the sub-contractor level ensuring competitive pricing. A Guaranteed Maximum Price (GMP) will be executed at the completion of permit drawings to provide cost certainty. Any savings from the GMP will be shared evenly with the contractor to provide incentive for the contractor to control cost.

Development Budget

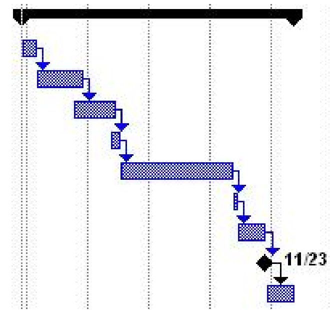
The total project is expected to cost $53Million or $247 per gross square foot including the assumed offer prices to acquire the necessary land. Construction costs are the largest portion of the development budget. Construction is estimated to be $140 per gross square foot plus the cost of the parking garage, currently estimated to be $30,000 per space. The construction budget is based on estimates provided by Bozzuto Construction and Meridian Construction for similar building types – six-story mixed used buildings with five levels of residential over one level of ground floor retail and one level of underground parking. Construction costs are expected to escalate by 4% through the start of construction. Estimates for soft and financing costs are included in the development budget below. The budget includes a developer fee of 5% to be split between the developer and the equity investor (4% to developer; 1 % to equity investor) and hard and soft cost contingencies of 8%. A detailed project development budget is included as Attachment “D”.

Development Schedule

The development of the project is expected to be 51 months from inception to stabilization. There are two variables that may result in significant changes in the overall schedule – the acquisition and assemblage of the site and the entitlement process. Once those steps are completed the project, the development schedule should become more predictable with a design period of eight months; four months of permitting, twenty-four months of construction and six months of leaseup.

Preliminary Project Schedule

Task	Duration	Start	Finish	Predecessors
Brookland Student Center	**1160 days**	**Mon 12/1/08**	**Fri 5/10/13**	
Acquisition/Site Assemblage	3 mons	Mon 12/1/08	Fri 2/20/09	
Entitlements	10 mons	Mon 2/23/09	Fri 11/27/09	2
Design	9 mons	Mon 10/5/09	Fri 6/11/10	3FS-2 mons
Permitting	2 mons	Mon 5/17/10	Fri 7/9/10	4FS-1 mon
Construction	24 mons	Mon 7/12/10	Fri 5/11/12	5
Startup Operations	1 mon	Mon 5/14/12	Fri 6/8/12	6
Lease-up	6 mons	Mon 6/11/12	Fri 11/23/12	7
Stabilization	0 days	Fri 11/23/12	Fri 11/23/12	8
Reversion - Sale or Refinance	6 mons	Mon 11/26/12	Fri 5/10/13	9



Operation and Marketing Plan

Property Management

Student housing offers several unique challenges in property management, especially when compared to traditional apartments. Turnover rates are extremely high and leasing activity is concentrated at the beginning and end of traditional school semesters – August/September; December/January; May/June. Traditional apartments have move-in and move-out occurring throughout the year at a relatively stable pace that is typically less than 5% of the total units. Conversely a student housing complex may have as much as 80-100% in a single month, which will put a strain on the building systems and property management staff. A third-party property management firm with substantial experience in traditional apartments, student housing and knowledge of the local market will be retained. One such firm is JPI Inc, who has over 2,000 apartment units under management in the District alone (with many more in the surrounding Metro Area). JPI is a national firm with a division that specializes in student housing and manages 15 student housing communities throughout the nation, including the only comparable “shared apartment” student housing complex in the metro area – The Towers at University Town Center in Hyattsville, MD. The property management firm will be retained during the design process to provide input and expertise on unit layouts; finish selections see below and the overall functionality of the project. The property management company’s input is also critical to determining life-cycle costs and operating budget impacts of design selections.

Student housing complexes are more prone to damage, and as the units will be furnished, FF&E will need to be repaired and replaced regularly. Therefore, a substantial replacement reserve budget will be factored into the buildings operating expenses, with a separate reserve budget for FF&E.

Marketing

Several tools will be utilized to market the property to students: **1** – Partner with the local colleges and universities, specifically CUA and Trinity as they are the primary market for this project, but also Howard, Gallaudet and other institutions. The universities all have departments that specialize in assisting students find off campus housing and thus will be used as a primary marketing tool. **2** – The project's location and amenities should be a major focus of marketing efforts. The proximity to the Metro Station, CUA and Trinity campuses, high-end unit finishes, and building amenities such as the roof deck, party room, and fitness center all help to differentiate the project from on campus housing and other off-campus housing options. Additionally, the projected rents are at a price point that offers significant value over the competitive housing options. **3** – The management company will be instrumental in targeting marketing efforts to students by using "student friendly" leasing office hours; open houses with free food and parties; and direct marketing and advertising. **4** – The "shared apartment" model, where each student will have a individual lease for his/her apartment is a unique product that will appeal to both students and their parents. Additionally, efforts will be made to accept specialized rent payment schedules that will allow students to utilize financial aid and student loans to pay for their housing.

Retail Marketing

The Brookland retail market, despite being relatively stable, is somewhat untested as there has been little new retail constructed in recent years especially in downtown Brookland. A third party broker will be retained to focus on both national and local retailers. Special focus will be paid to potential retailers, such as coffee shops, bookstores, and restaurants who can significantly benefit from the student population. The project will seek minimum 10 year leases with tenants at $25 per square foot and will offer $50 per square foot tenant fitout allowances. Broker fees are expected to be 3% of the gross value of each ten year lease.

Financial Analysis and Underwriting Assumptions

Capitalization Rates

Cap rates for nearly all real estate products in all markets have risen in recent months with the slowdown in the real estate markets and weakening economy. Investors are perceiving higher risk associated with real estate thus are seeking higher returns to offset that risk which has resulted in lower values and higher cap rates. Primary markets such as Washington, DC have as recently as 12 months ago seen historically low cap rates especially in the multi-family housing market in which Class A product has sold for as low as 4.0%-4.5%. More recently, cap rates have risen 100-150 basis points. Class B cap rates are typically 50 to 150 basis points above Class A cap rates. The Brookland Student Center project represents a very unique product and thus does not have frequent cap rate history which to compare. It is also difficult to determine the exit cap rate for a product that will not achieve stabilization for more than four years. The project would likely fall within the high Class B or low Class A markets and thus a rate of 5.5%-6.0% would likely be achievable in the current market. Due to the uncertainty of the student housing market and the current capital markets a conservative 6.75% exit cap rate is assumed. A sensitivity analysis based on exit cap rates is provided later in the report.

Miscellaneous Assumptions

The following is a summary of the underwriting assumptions used in the financial analysis of the proposed project.

Description	Assumption	Source
Rent Escalation	1.5% per year through 2010 then 3.0% per year.	Based on data from Marcus and Millichap Q3 DC Metro Apartment Market report, which suggests 3% per year but was reduced to 1.5% to be conservative and due to concerns of the overall economy and over building of the local apartment market.
Parking Income	$100 per space per month for residential parking.	Based on report from Fulton Research Consulting for similar area projects.
Other Income	$20 per unit per month.	Estimate assuming some late fees and vending income.
Vacancy/Collection Loss	4%	Based on Delta Associates estimate of 3.0% for DC Metro area rounded up to be conservative.
Operating Expenses	<u>Item</u> <u>Per Unit</u> Payroll $1,500 CAM/Utilities $1,250 Misc $750 Insurance $250 Taxes $1,500 Reserves $450 Management Fee 3%	Based on report from JPI Inc for comparable projects in the DC Metro Area. Reserves increased for FF&E replacement.

Based on the above assumptions, the project is projected to produce net operating income (NOI) of $4.78Million at stabilization. Based on a projected total development cost of $53Millionthe projected yield on cost is 9.1% at stabilization.

Debt Financing

The market for debt financing for development projects has tightened considerably over the last 12-18 months. Construction financing is often difficult to find and when it is available, the leverage ratios are low with a significant recourse component expected. Interest rate spreads over LIBOR has have also increased although LIBOR, while extremely volatile in recent months has fallen significantly allowing overall interest rates to remain relatively stable.

Data from realtyrates.com suggests that multi-family apartment construction loans in the third quarter 2008 ranged from 75-100% loan to const ratios, however this data likely skewed by affordable housing projects using tax-exempt bonds and other government insured programs. Conservatively, interim construction financing at a 60% loan to cost will be sought.

Interest rates for multi-family construction loans ranged from 6.5% - 11.5% based on spreads of 400 – 900 basis points over LIBOR. Average interest rates for the third quarter of 2008 were 7.61%. As this project is in a primary market that has remained stable during the recent market volatility and will have a conservative 60% loan to cost ratio, an interest rate of 7.5% is projected. The rate will be interest only during construction and will be fixed assuming a rate swap is purchased to reduce interest rate risk. Loan proceeds, based on these assumptions, are projected to be $32 Million.

Equity Financing

While not as difficult to obtain as debt financing, the cost of equity capital has also increased in recent months due to market volatility and macro-economic concerns. The requirement for recourse debt will also increase the cost of equity.

Required equity for the project is projected to be approximately $21Million. An institutional equity partner will be used for construction financing. Typical IRR thresholds for high-risk construction projects are generally 15-30% and will require the sponsor developer to provide 10% of the required equity. The following promote structure is assumed for the equity investor and sponsor developer:

1st Tier	Share of Cashflow	Preferred Return (IRR)
Equity Partner	90%	10%
Sponsor/Developer	10%	
2nd Tier		
Equity Partner	25%	20%
Sponsor/Developer	75%	
3rd Tier		
Equity Partner	60%	25%
Sponsor/Developer	40%	
4th Tier		
Equity Partner	50%	NA
Sponsor/Developer	50%	

The institution equity partner will also receive a 1% developer fee (20% of the total 5% developer fee).

Disposition Strategy

Due to the high cost debt and equity capital for construction financing and low leverage rate, the project will be either sold or re-capitalized at stabilization. This will allow for maximum returns for the equity partner and developer as permanent financing capital will be substantially less expensive. Currently, permanent debt for multi-family apartment projects averages 6.38% interest and 75% loan to value, therefore upon stabilization the project can support substantially more debt than is available for construction. Equity for stabilized projects will also be less expensive with an expected return of 15-20%. Additionally the projected yield on cost of 9% is more than 200 basis points higher than market capitalization rates, thus there will be significant value created during development that can be realized via reversion soon after stabilization.

Sales Proceeds:	**At Disposition**
Disposition Date (Month)	51
Disposition Date (Quarter)	18
Residential Net Operating Income	4,335,307
Terminal NOI	**4,335,307**
Residential Terminal Cap Rate	6.75%
Residential Valuation	**64,226,765**
Retail Net Operating Income	451,888
Retail Terminal Cap Rate	6.75%
Retail Valuation	**6,694,640**
Asset Valuation	70,921,405
Less: Selling Costs	(2,836,856)
Sales Proceeds	**68,084,548**

Projected Returns

Based on the described financial assumptions, the projected financial returns are as follows:

Project Returns:	
Return-on-Cost at Today's Rents	8.4%
Return-on-Cost at Stabilization	9.1%
Project IRR	26.2%
Cash Flow	$15,111,065
Unlevered Project IRR	20.6%
Total Project Equity Contribution	$20,918,604
Project Gross Equity Multiple	1.72x
Equity Partner Returns	
Equity Partner IRR	23.4%
Equity Partner Cash Flow	$11,890,074
Equity Partner Equity Contribution	$18,826,744
Equity Partner Equity Multiple	1.63x
Equity Partner Economic Ownership	78.7%

A detailed project proforma and cashflow are included as Attachment “D”

Sensitivity Analysis

As with all investment decisions, there is a level of uncertainty involved with financial assumptions and projected market conditions. As the project is planned to be developed over a 53 month period and will require a significant period of time for site assemblage and entitlements, market conditions can be volatile and vary greatly from the time of analysis to the start of construction. A sensitivity analysis has been performed to analyze the potential impacts based on differing assumptions for: exit cap rate; construction loan to cost; and rental rates.

Conclusion and Recommendations

Project Opportunities

The following is a summary of the most notable investment opportunities that can be realized in the Brookland Student Center project:

Opportunity to be a first mover in a "high growth potential" urban neighborhood:

The Brookland neighborhood has not experienced the rapid growth as nearby neighborhoods despite having several advantages over those neighborhoods such as access to transit, stable residential populations and a large transient student population. This is mostly the result of a lack of developable sites in the neighborhood. By assembling a developable site and obtaining entitlements, significant value can be “unlocked” in a neighborhood that has vast potential.

Opportunity to use a niche market to achieve better than market returns:

The “shared apartment” student housing model has been gaining popularity nationally but there is only one project in the DC Metro Area that has used the model. As the local apartment market slows, this project could achieve substantially better than market returns as it is exploiting a growing student populations that is less susceptible to volatility in the real estate market and overall economy.

Opportunities for future phases:

The proposed site represents a small portion of the land in the vicinity of the Brookland Metro Station. As a result of the Office of Planning Small Area Plan, nearby industrial properties are more likely to be approved for mixed-use development. A successfully project could result in a strategic advantage and create the opportunity to develop other sites in the neighborhood in the future.

Project Risks

The following is a summary of the most notable risks involved in the Brookland Student Center project and strategies for how each can be mitigated:

Assemblage risk:

The project will require the assemblage for four individually owned and currently occupied properties all four of which are necessary for a successful project. It is possible that significant time can be spent presenting offers and negotiating purchase and sale agreements with individual owners but may not result in a successful assemblage. This risk can be mitigated by using a broker working on a commission basis that can provide the ground work and time needed to negotiated and close transactions. Purchase and Sale Agreements for each property should be contingent on executing contracts on all other properties.

Entitlement risk:

The proposed project requires approval of a Planned Unit Development by the DC Zoning Commission. The PUD process can take up to one year and there is no guarantee of approval. Failure to achieve PUD approval would result in a significantly smaller project if done under “by-right” zoning and may not meet market return thresholds. This risk can be mitigated by working with community stakeholders including neighbors, the Office of Planning, ANCs, and Catholic and Trinity Universities during the conceptual design process to develop a plan that is mutual beneficial to all and thus more likely to be approved. Purchase contracts for the acquisition of necessary properties should be contingent on PUD approval.

Untested Market/Product:

The “shared apartment” student housing model is relatively uncommon especially in the DC metro area as there is only one similar project currently operating under this model in the market. While this model has been used elsewhere in the country, there are few local consultants, contractor, investors, etc that have experience and expertise in this product type. This risk can be mitigated by educating investors and lenders on the product type with case studies of projects around the country. When possible, project consultants with experience in student housing should be used such as JPI Inc as property manager.

Financing risk:

The “credit crunch” of the last 12-18 months has resulting in very tight credit and lending markets. Construction financing is especially difficult to obtain and will almost certainly require significant recourse and guarantees. This is further complicated by a non-traditional project type. This risk is mitigated by the fact that there will be a lengthy assemblage and entitlement period, allowing time for credit markets to thaw. There will be ample opportunities in during the due diligence and entitlement process to make “go or no go” decisions based on an analysis of market conditions at that time.

Conclusions

Based on an analysis of the risks and opportunities of the Brookland Student Housing project, it is recommended that the project move forward with assemblage and entitlement activities. The project presents a unique opportunity to exploit a niche market that has significant growth and value potential even in a difficult economic and financing environment. Furthermore there is opportunity to use current market conditions to the advantage of the project. Construction costs have leveled significantly recently, a trend that will likely continue due to a slowdown in worldwide demand. Land prices have also begun to reverse While cap rates and return thresholds are increasing due to perceived risk in the marketplace, the student housing market has experiences significant growth and is likely able to buck the trends of conventional apartments and other product types. Additionally, the project will require more than a year of acquisition, entitlements and design and thus there will be ample opportunity to re-evaluate the projected returns, risks, and feasibility of the project throughout that time, while placing only a small amount of capital at risk.

Attachments

Attachment “A”
Brookland Neighborhood Photos

Catholic University as viewed from Michigan Avenue.

Basilica of the National Shrine of the Immaculate Conception viewed from Michigan Avenue

12th Street Retail Strip

Neighborhood Homes

Attachment "B"
Site Photos

Parcel "A"

Parcel "B"

Parcels "C" & "D"

Michigan Avenue overpass and pedestrian access to the Metro Station

Brookland Metro Station with Michigan Avenue overpass in the background

Attachment “C”
Acquisition Plan

Site A

Site Information					
Site:	A	**Square:**	3822	**Lot:**	25
Address:	934 Michigan Ave NE				
Owner Name:	Auto Body Supply Inc.	**Owner Address:**	5510 Wisconsin Ave; Chevy Chase, MD		
Owner Occupied (y/n):	N	**Current Use:**	Auto repair shop		
Land Area:	15,670	**Building Area:**	4,000		
Estimated Value Based on Income Capitalization					
	Per sf	**Total**			
Rent:	$20.00	$80,000			
Vacancy:	5%	($4,000)			
Gross Income:		$76,000			
Operating Expenses:	($5.00)	($20,000)			
NOI:	$14.00	$56,000			
Cap Rate:	7.50%				
Estimated Value Based on Income Cap:		**$746,667**			
Estimated Value Based on Comps					
	Price per SF				
Comp #1 - 903 Girard Street NE	$112.91				
Comp #2 - 2940 12th Street NE	$118.42				
Comp #3 - 703 Edgewood Street NE	$97.76				
Average:	$109.70				
Estimated Value Based on Comps:	**$438,787**				
Estimated Value Based on Development					
Land Area:	15,670				
FAR:	3.5				
Gross Buildable Area:	54,845				
Residual Value/FAR ft:	$40.00				
Estimated Value Based on Development:	**$2,193,800**				
Offer Price (average of income cap, comps, dev):	**$1,126,000**	$20.53			

Strategy Narrative:

Multiple similarly sized properties are available for sale within a one-mile radius. Most of the properties are priced below $1.1M and thus there is opportunity to purchase an alternate site and offer to lease the new site to the operator at a lower lease rate. The 1.12M offer price is well in excess of comps therfore should entice the land owner.

Site B

Site Information					
Site:	B	**Square:**	3822	**Lot:**	802
Address:	3700 10th Street NE				
Owner Name:	Square 235 LP	**Owner Address:**	5510 Wisconsin Ave; Chevy Chase, MD		
Owner Occupied (y/n):	N	**Current Use:**	Rental Car Agency		
Land Area:	10,688	**Building Area:**	2,000		
Estimated Value Based on Income Capitalization					
	Per sf	**Total**			
Rent:	$15.00	$30,000			
Vacancy:	5%	($1,500)			
Gross Income:		$28,500			
Operating Expenses:	($5.00)	($10,000)			
NOI:	$9.25	$18,500			
Cap Rate:	7.50%				
Estimated Value Based on Income Cap:		**$246,667**			
Estimated Value Based on Comps					
	Price per SF				
Comp #1 - 903 Girard Street NE	$112.91				
Comp #2 - 2940 12th Street NE	$118.42				
Comp #3 - 703 Edgewood Street NE	$97.76				
Average:	$109.70				
Estimated Value Based on Comps:	**$219,393**				
Estimated Value Based on Development					
Land Area:	10,688				
FAR:	3.5				
Gross Buildable Area:	37,408				
Residual Value/FAR ft:	$40.00				
Estimated Value Based on Development:	**$1,496,320**				
Offer Price (average of income cap and comps):	**$654,000**	$17.48			

Strategy Narrative:

The site does not offer good visibility for a rental car company, and is not lcoated in a major employment area. The strategy would need to involve identifying alternate sites in more heavily traveled and visible corridors such as Rhode Island Avenue or Georgia Avenue, which would serve a similar market area. The owner is the same as site A and thus a package offer could be made.

Site C

Site Information					
Site:	C	**Square:**	3822	**Lot:**	809
Address:	3722 10th Street NE				
Owner Name:	Morton Lessans	**Owner Address:**	3726 10th Street NE		
Owner Occupied (y/n):	Y	**Current Use:**	Storage Yard/parking Lot		
Land Area:	13,633	**Building Area:**	0		
Estimated Value Based on Income Capitalization					
	Per sf	**Total**			
Rent:	NA	NA			
Vacancy:	NA	NA			
Gross Income:	NA	NA			
Operating Expenses:	NA	NA			
NOI:	NA	NA			
Cap Rate:	NA	NA			
Estimated Value Based on Income Cap:		**NA**			
Estimated Value Based on Comps					
	Price per SF				
Comp #1 - 1018 Kerney Street NE	$31.35				
Comp #2 - 5013 10th Street NE	$40.54				
Comp #3 - 1224 Jackson Street NE	$13.64				
Average:	$28.51				
Estimated Value Based on Comps:	**$388,677**				
Estimated Value Based on Development					
Land Area:	13,633				
FAR:	3.5				
Gross Buildable Area:	47,716				
Residual Value/FAR ft:	$40.00				
Estimated Value Based on Development:	**$1,908,620**				
Offer Price (average of income cap and comps):	**$1,149,000**	$24.08			

Strategy Narrative:
The site is owner occupied and is being used for parking and storage. Given the high offer price relative to the current use and value fo the property, a straightforward offer would be practical.

Site D

Site Information					
Site:	D	**Square:**	3822	**Lot:**	805
Address:	3726 10th Street NE				
Owner Name:	Atlantic Electric Supply Inc	**Owner Address:**	3726 10th Street NE		
Owner Occupied (y/n):	Y	**Current Use:**	Electric Supply Warehouse		
Land Area:	16,458	**Building Area:**	10,400		

Estimated Value Based on Income Capitalization

	Per sf	**Total**
Rent:	$15.00	$156,000
Vacancy:	5%	($7,800)
Gross Income:		$148,200
Operating Expenses:	($5.00)	($52,000)
NOI:	$9.25	$96,200
Cap Rate:	7.50%	
Estimated Value Based on Income Cap:		**$1,282,667**

Estimated Value Based on Comps

	Price per SF
Comp #1 - 903 Girard Street NE	$112.91
Comp #2 - 2940 12th Street NE	$118.42
Comp #3 - 703 Edgewood Street NE	$97.76
Average:	$109.70
Estimated Value Based on Comps:	**$1,140,845**

Estimated Value Based on Development

Land Area:	16,458
FAR:	3.5
Gross Buildable Area:	57,603
Residual Value/FAR ft:	$40.00
Estimated Value Based on Development:	**$2,304,120**

Offer Price (average of income cap and comps):	**$1,576,000**	$27.36

Strategy Narrative:

Site D is potentiall the most difficult to acquire as it is owned by the business operating on the site and is the most viable business of the four. The building works as both a retail space and warehouse/storage space for an electrical supply company. There is retail space in the area that is avaialable but does not offer the floorplate and warehouse space of this site. Likewise there is also warehouse space available but does not offer the visibility and access of retail space. However the site is small and lacks adequate loading and parking. Identifying sites that have more space for expansion and better parking and loading. As the business is an electrical supply company, an offer could include a commitment to purchase supplies and materials for the construction of the proposed project.

Attachment "D"
Project Financial Proforma